

REPORT ON EXAMINATION
OF THE
NORTH STAR REINSURANCE CORPORATION
AS OF
DECEMBER 31, 2005

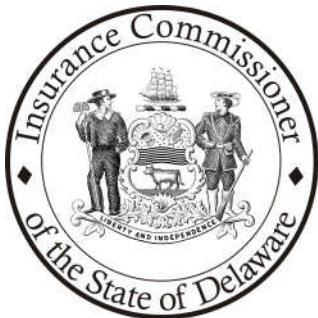
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

NORTH STAR REINSURANCE CORPORATION

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

DATE: 8 JUNE 2007



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 8TH DAY OF JUNE 2007.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
NORTH STAR REINSURANCE CORPORATION
AS OF
December 31, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written in a cursive style.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 8TH Day of JUNE 2007.

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SALUTATION

March 19, 2007

Honorable Mike Geelsin
Chairman, Financial Condition (E)
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State Corporation Commission
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PO Box 149104
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Honorable Matthew P. Denn
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Honorable Joseph Torti, III
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1200 West 3rd Street
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Honorable Kent Michie
Secretary, Western Zone (IV) NAIC
Utah Department of Insurance
3110 State Office Building
Salt Lake City, Utah

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 06.004, dated January 26, 2006, an examination has been made of the affairs, financial condition and management of the

NORTH STAR REINSURANCE CORPORATION

hereinafter referred to as "Company" or "North Star" and incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware, 19801. The examination was conducted at the main administrative office of the Company, located at 695 East Main Street, Stamford, Connecticut, 06901-2350.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2002. This examination covers the period since that date through December 31, 2005, and consisted of a general review of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC") and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, the consulting firm of INS Services, Inc performed an information systems review.

In addition to items hereinafter incorporated as a part of this report, the following topics were reviewed and made part of the work papers of this examination.

Fidelity Bonds and Other Insurance
Statutory Deposits
Legal Actions Pending Settlement
All Asset & Liability Items Not Mentioned
Subsequent Events

HISTORY

The Company was incorporated with the temporary title “North Star Reinsurance Corporation of Delaware” under the laws of Delaware on December 1, 1977 to act as the vehicle for the transfer of the corporate domicile of North Star Reinsurance Corporation from New York, New York to Wilmington, Delaware. The predecessor company was incorporated under the laws of New York on August 3, 1956.

In March 1993, a joint venture between W.R. Berkley (“WRBC”) and General Re Corporation (GRN) resulted in the formation of Signet Star Holdings, Inc. (“Holdings”). WRBC controlled sixty percent (60%) of the common shares of Holdings and appointed six (6) of seven (7) board members. The seventh board member was the Chief Executive Officer of Holdings, who was appointed by WRBC subject to the approval of GRN.

In connection with the joint venture, both WRBC and GRN contributed a company to Holdings. On July 1, 1993, GRN contributed North Star and WRBC contributed Signet Reinsurance Company (“Signet Re”), a Delaware domiciled reinsurance company. Concurrent with the transaction, North Star’s name changed to Signet Star Reinsurance Company (“Signet Star”) and Signet Re became a wholly-owned subsidiary of Signet Star. Through a retrocessional agreement, General Reinsurance Corporation reinsured North Star’s net claim and claim expenses arising from reinsurance assumed and direct business written by North Star with inception, renewal or premium anniversary dates prior to January 1, 1993.

The joint venture between WRBC and GRN was dissolved on December 28, 1995. All business written by North Star subsequent to December 31, 1992 was assumptively reinsured and novated to Signet Star. Concurrently, GRN and WRBC entered into an Agreement and Plan of Restructuring whereby; GRN sold its interest in Holdings to WRBC and the stock of North Star

was repurchased by GRN. As a condition to the restructuring transaction, Signet Star was renamed North Star Reinsurance Corporation and Signet was renamed Signet Star Reinsurance Corporation. The Delaware Department of Insurance approved a minimum capital and surplus level for North Star of \$10,000,000.

CAPITALIZATION

The Company's amended Certificate of Incorporation dated November 20, 1995, provides that it is authorized to issue: 50,000 shares of common capital stock having a par value of \$100 per share, of which 40,000 shares are issued and outstanding; and 10,000 shares of preferred stock having a par value of \$100 per share, of which 5,000 shares are issued and outstanding. General Re Corporation owns all shares of stock.

Dividends to Stockholder

There were no stockholder dividends that were paid during the period of January 1, 2003 to December 31, 2005.

Following is a reconciliation of capital and surplus for the period under examination:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Surplus as regards policyholders, December 31, prior year	<u>\$15,606,706</u>	<u>\$16,917,516</u>	<u>\$17,430,817</u>
Net Income	949,934	342,272	468,710
Change in net unrealized Foreign exchange gain (loss)	365,246	171,894	51,657
Change in net deferred income tax	(81,490)	(60,174)	(17,945)
Change in nonadmitted assets	<u>77,120</u>	<u>59,309</u>	<u>0</u>
Change in surplus as regards policyholders, current year	<u>\$1,310,810</u>	<u>\$513,301</u>	<u>\$502,422</u>
Surplus as regards policyholders, current year	<u>\$16,917,516</u>	<u>\$17,430,817</u>	<u>\$17,933,239</u>

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the General Corporation Laws of the State of Delaware as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of the Board of Directors. The bylaws provide that the number of directors shall be established by the Board of Directors or by action of the stockholder and shall consist of not less than seven (7) members. Directors are elected annually and serve until a successor is elected and qualified. Interim vacancies may be filled by vote of the directors then in office, which may be less than a quorum. A majority of the Board of Directors but not less than five (5) members shall constitute a quorum for the transaction of business.

A meeting of the Board of Directors shall be held within sixty (60) days after each annual election of directors for the purpose of organization, election of officers and the transaction of such other business. The Board of Directors may provide for the holding of regular meetings and the Chairman of the Board, the President or any two (2) directors, may call special meetings.

Members of the Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2005 were as follows:

<u>Name</u>	<u>Principal Business Affiliation</u>
Joseph P. Brandon	Chairman and Chief Executive Officer General Reinsurance Corporation
Leslie J. Davis	Vice President and Assistant General Counsel General Reinsurance Corporation
William G. Gasdaska, Jr.	Senior Vice President, Chief Financial Officer and Treasurer General Reinsurance Corporation

John D. Hickey	Executive Vice President General Reinsurance Corporation
Franklin Montross IV	President and Chief Operations Officer General Reinsurance Corporation
Lee R. Steeneck	Senior Vice President and Actuary General Reinsurance Corporation
Damon N. Vocke	Vice President, Secretary and General Counsel General Reinsurance Corporation

Committees of the Board of Directors

The Board of Directors appointed the following members to the Compensation Committee that served as of December 31, 2005:

Joseph P. Brandon
Franklin Montross, IV

The Company had indicated in each of its Annual Statements that a complete permanent record of the proceedings of subordinate committees is kept. However, there were no recorded minutes of the Compensation Committee in the years 2004 and 2005 and although the committee meeting minutes for the year 2003 indicates that a report was made for the compensation of officers, the report was not attainable.

It is recommended that the Company reply to the Annual Statement General Interrogatories in an accurate manner concerning the maintenance of recorded minutes and a written account or report of the discussions that is reflected in the minutes of the committee members' meetings should be retained.

Officers

The bylaws of the Company provide that the Officers of the Company shall consist of a Chairman of the Board, a President, a Treasurer and a Secretary and such other offices with titles as shall from time to time be set by resolution of the Board of Directors. The Company's principal officers and their respective titles as of December 31, 2005, were as follows:

<u>Name</u>	<u>Title</u>
Joseph P. Brandon	Chairman and Chief Executive Officer
Franklin Montross, IV	President and Chief Underwriting Officer
Scott R. Ostericher	Secretary
William G. Gasdaska, Jr.	Treasurer

Notification of Change of Directors and Officers

There were six (6) changes, both new appointments or elections and resignations in the positions of Directors or principal officers, which had not been reported to the Delaware Insurance Commissioner during the period of January 1, 2003 to December 31, 2005. Principal officers includes all those individuals listed in the Annual Statements filed by the Company.

“18 Del. C. § 4919-Notice of change of directors or officers,” states;

“Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers.”

It is recommended that the Company comply with 18 Del. C. § 4919 regarding notification of changes in officers and directors.

Conflict of Interest Policy

The immediate parent company, General Re Corporation, maintains a formal written Policy Statement on Conflict of Interest procedures for its subsidiaries, that includes the Company, of which conflict of interest compliance questionnaires are required to be distributed to, and executed by officers, directors and employees on an annual basis.

The Company complied with its conflict of interest procedures for the year-ending periods of 2003 and 2005; however, the review and execution of such questionnaire forms were not implemented in the year 2004.

It is recommended that the Company consistently comply with its Policy Statement on Conflict of Interest procedures by verifying that its officers and directors review and execute the questionnaires on an annual basis.

Corporate Records

During the period of January 1, 2003 to December 31, 2005, all actions taken by the Board of Directors were done by unanimous written consent in lieu of holding Board meetings.

Investment Management Agreement

The Investment Management Agreement including the Investment Policy and Guidelines that was entered into with General Re-New England Asset Management, Inc., dated June 1, 2003, was first approved at the June 29, 2004 Board meeting, being over a year from the effective date. Therefore, the Board of Directors did not approve the investment management agreement in a timely manner.

It is recommended that the Company exercise care to assure that, when the Board's approval of agreements is required or otherwise provided, such approval is given in a timely manner.

HOLDING COMPANY SYSTEM

The Company is a member of a holding company system and on December 28, 1995, North Star became a wholly-owned subsidiary of General Re Corporation, a Delaware holding company, when it reacquired control of the Company. Berkshire Hathaway Inc., a Delaware domiciled holding company, became the ultimate parent and controlling entity of the entire group of companies on December 21, 1998 as a result of a merger with General Re Corporation. Berkshire Hathaway Inc. owns diverse companies engaged in various business activities worldwide.

The following organizational chart reflects the identities and interrelationships between the members of the "Gen Re Group" of companies that are part of the holding company system as of December 31, 2005:

**GENERAL RE CORPORATION
HOLDING COMPANY CHART
(as of 12/31/2005)**

Berkshire Hathaway Inc.		Delaware	N/A
General Re Corporation		Delaware	100
General Reinsurance Corporation		Delaware	100
Elm Street Corporation		Delaware	100
General Star Indemnity Company		Connecticut	100
General Star International Indemnity Ltd.		UK	100
General Star National Insurance Company		Ohio	100
General Star Management Company		Delaware	100
Genesis Underwriting Management Company		Delaware	100
Cologne Services Corporation		Delaware	100
Genesis Professional Liability Managers, Inc.		Ohio	100
Broker Markets Agency, Inc.		Connecticut	100
Insurance Management Services, Inc.		Connecticut	100
Genesis Insurance Company		Connecticut	100
Genesis Indemnity Insurance Company		North Dakota	100
GRC Realty Corporation		Connecticut	100
General Re Holdings Limited		UK	100
Reinsurance Underwriting Services Limited		UK	100
Gen Re Services UK Limited		UK	100
General Reinsurance UK Limited		UK	100
Gen Re Investments UK Limited		UK	100
GeneralCologne Re Management Ltd	(3)	Australia	50
General & Cologne Re Brasil Ltda.	(5)	Brazil	50
General Reinsurance Australia Ltd		Australia	100
General Re Compania de Reaseguros, S.A.		Uruguay	100
Mandataria General Re, S.A.	(1)	Argentina	100

North Star Reinsurance Corporation

General & Cologne Re (Sur) Compañia de Reaseguros S.A. (1)	Argentina	100
Kölnische Rückversicherungs-Gesellschaft AG	Germany	91.2 (4)
GRD Corporation	Delaware	100
Kölnische Rückversicherungs-Gesellschaft AG	Germany	91.2 (4)
Cologne Holding Company of America	Connecticut	100
Cologne Re Managers Corporation	Delaware	100
Cologne Reinsurance Company of America	Connecticut	100
GeneralCologne Life Re (Barbados) Ltd.	Barbados	100
General & Cologne Investments LLC	Delaware	100
General Re Life Corporation (6)	Connecticut	100
Cologne Life Underwriting Management Company	Connecticut	100
John Hewitt and Associates	Maine	100
Professional Life Underwriting Solutions, Inc.	Connecticut	100
Idealife Insurance Company	Connecticut	100
GCL Strategic Investments, Inc.	Connecticut	100
Europa Rückversicherung Aktiengesellschaft	Germany	100
Europa Re (Dublin) Limited	Ireland	100
Kölnische Versicherungs-Beratungs- und Service GmbH	Germany	100
Faraday Reinsurance Co. Limited	UK	100
Cologne Reinsurance Company (Dublin) Ltd. (1)	Ireland	100
Cologne Reinsurance Finance Holdings B.V.	Netherlands	100
GeneralCologne Re (Bermuda) Ltd.	Bermuda	100
General & Cologne Re (Barbados) Ltd. (2)	Barbados	75
Gen Re México, S.A.	Mexico	100
Gen Re Warsaw Sp. z.o.o.	Poland	100
General Reinsurance Africa Ltd. (1)	South Africa	100
GeneralCologne Re Management Ltd (3)	Australia	50
General & Cologne Re Brasil Ltda. (5)	Brazil	50
General Reinsurance Life Australia Ltd. (1)	Australia	100
SIA Gen Re Riga	Latvia	100
GeneralCologne Re Ibérica Corredores de Reaseguros S.A.	Spain	100

North Star Reinsurance Corporation

General Reinsurance Life UK Limited (1)	UK	100
Cologne Re Consultants Ltd.	Hong Kong	100
Insiders Technologies GmbH (8)	Germany	86
General Reinsurance Scandinavia A/S	Denmark	100
Universal Risk Partners S.à.r.l.	Luxembourg	100
GeneralCologne Re Capital Fund Managers (Ireland) Limited (1)	Ireland	100
GeneralCologne Re Beirut s.a.l. (Off-Shore Company) (1)	Lebanon	100
Gen Re Capital GmbH	Germany	100
Der Gen Re Rehabilitations-Dienst GmbH	Germany	100
General Re Strategic Solutions, Inc.	Delaware	100
National Re Corporation	Delaware	100
National Reinsurance Corporation	Delaware	100
Fairfield Insurance Company	Connecticut	100
Global Resolution, Inc.	New Jersey	100
Red Elm, LLC	Delaware	100
GRCBA, LLC	Delaware	100
North Star Reinsurance Corporation	Delaware	100
General Re-New England Asset Management, Inc.	Delaware	100
North Star Syndicate, Ltd.	Delaware	100
United States Aviation Underwriters, Inc.	New York	100
Canadian Aviation Insurance Managers Ltd.	Canada	100
Airsurance Limitee	Quebec	100
General Re Services Corporation	Delaware	100
Gen Re Intermediaries Corporation	New York	100
Genplus Managers, Inc.	Delaware	100
Faraday Holdings Limited	UK	100
Faraday Group Services Limited	UK	100
Faraday Underwriting Limited	UK	100
Faraday Insurance Services Limited	UK	100
Faraday Capital Limited	UK	100
GRD Holdings Corporation	Delaware	100

North Star Reinsurance Corporation

GRD Global, Inc.	Delaware	100
Gen Re Securities Holdings LLC	Delaware	100
General Re Financial Products Corporation	Delaware	100
General Re Financial Products (Canada) Limited	Ontario	100
Gen Re Securities	UK	100
General Re Investment Holdings Corporation	Delaware	100
General Re Funding Corporation	Delaware	100
General Re Corporate Finance, Inc.	Delaware	100
Gen Re Asset Finance, Inc.	Delaware	100
GenRe South Ridge Partners L.P.	Delaware	100
GenRe Park Holdings LLC	Delaware	100
GenRe Gisbourne LLC	Delaware	100
GenRe Medallion LLC	Delaware	100
General Re Asset Investments (I), Inc.	Delaware	100
Ardent Risk Services, Inc.	Delaware	100

(1) Percentages include any qualifying shares.

(2) GeneralCologne Re (Bermuda) Ltd. (Bermuda) owns 75% and General Re Life Corporation (Connecticut) owns 25% of General & Cologne Re (Barbados) Ltd. (Barbados)

(3) General Reinsurance Corporation and Kölnische Rückversicherungs-Gesellschaft AG each own 50% of GeneralCologne Re Management Ltd

(4) On December 22, 2005, the GRN-SARL was dissolved under the laws of Luxemburg; as a result of the dissolution of the GRN-SARL, GRD Corporation received 6,174,369 shares of Kölnische Rückversicherungs-Gesellschaft AG and General Reinsurance Corporation received 6,149,721 shares of Kölnische Rückversicherungs-Gesellschaft AG. In addition to the shares received as a result of the dissolution, GRC already owned 506,653 shares and GRD Corporation owned 6,259,095 shares. As a result of the SARL dissolution and the existing shares, the total shareholdings for GRC are 6,656,374 shares; the total shareholdings for GRD Corporation are 12,433,464 shares. The Corporation's consolidated interest in KR is 91.2%.

(5) General Reinsurance Corporation and Kölnische Rückversicherungs-Gesellschaft AG each own 50% of General & Cologne Re Brasil Ltda.

(6) Kölnische Rückversicherungs-Gesellschaft AG holds a 51% controlling interest and Cologne Re Managers Corporation holds a 49% non-controlling interest of General Re Life Corporation.

(7) Owned 75% by GenRe Medallion LLC and 25% by General Re Asset Holdings, Inc.

(8) Kölnische Rückversicherungs-Gesellschaft AG owns 86% and 8 private individuals (non-GCR employees) own 14%.

(Indentation Shows Ownership)

General Reinsurance Corporation, an upstream affiliate, filed holding company registration statements on behalf of North Star for all years under examination that were in compliance with the requirements of 18 Del. Admin. Code 1801.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact the business of insurance in all states except Hawaii, Maine, North Carolina, and Wyoming, and is also licensed in the District of Columbia and Puerto Rico.

Since December 28, 1995, when the Company was re-acquired by General Reinsurance Corporation, North Star Reinsurance Corporation has not written any new or renewal business.

Gross premiums written, totaling \$371,161, as of December 31, 2005 were assumed from non-affiliates and the entire amount was ceded to General Reinsurance Corporation.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements with the exception of 2005, which was verified during the current examination, and shows the growth of the company since its last examination as of December 31, 2002.

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Gross Premiums Written *</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>
2005	\$ 30,626,036	\$17,933,239	\$ 371,361	\$ 0	\$ 468,710
2004	17,473,718	17,430,817	836,931	0	342,272
2003	24,624,218	16,917,516	610,548	0	949,934
2002	25,222,281	15,608,706	(638,063)	0	1,117,121

* Direct premiums written and reinsurance assumed.

The increase in net admitted assets of approximately \$13.1 million between 2005 and 2004 is primarily due to an increase in cash and short-term investments, mainly offset by an increase to payable to parent, subsidiaries and affiliates of \$12.6 million. The increases in these accounts were attributed to approximately \$12.8 million received in December 2005 from arbitration settlements and reinsurance recoveries. These balances were due to GRC as a result

of a loss portfolio transaction executed with GRC that was reviewed and commented on in prior examination reports. All amounts due to GRC were settled in January 2006.

REINSURANCE

The Company's liabilities are 100% reinsured through a retrocessional agreement with General Reinsurance Corporation, entered into on December 28, 1995.

INTERCOMPANY AGREEMENTS

The Company participated in the following inter-company management and service agreements that were in effect as of December 31, 2005:

Expense and Tax Allocation Agreement

Effective December 28, 1995, the Company and its immediate parent, General Re Corporation (GRN), entered into an expense and tax allocation agreement.

Each of the parties can provide services for each other that include such expenses as; administration, underwriting services, personnel, investment, EDP, treaty services, medical and such other expenses and taxes of any kind, rent, employee benefits and directors fees. Fees charged could be based on time, number of employees, company assets, rent space or other agreed upon cost allocation methods.

The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the consolidated group. Estimated payments are required to be made by the respective affiliates to GRN and if such member is in a tax loss position that member will establish an account receivable from GRN.

Joint Asset Agreement

Effective January 1, 1989 and last amended on October 10, 2005, a joint asset agreement was established between and among certain subsidiaries of GRN of which North Star became a participant after its reacquisition by GRN in 1995. The companies joined together, creating a pool fund to which each participant contributes cash in excess of general working capital to improve the investment returns on the contributed funds. Each participant jointly owns a percentage of the assets in the pool, the investment income derived there from and such reinvestments as are made, in proportion to its contributed assets and jointly share the same proportion in the profits or losses, if any, of the pool fund. General Reinsurance Corporation is appointed as the manager of the pool fund and any participant, on notice to the manager, may cancel its participation and withdraw its contributions.

General Services Agreement

Effective September 1, 1998, the Company entered into a general services agreement whereby General Reinsurance Corporation provides, without limitation, such services as; administration, communications and public relations, actuarial, audit, executive, legal, personnel, comptroller, employee benefits and benefit plans, accounting, tax and other financial services.

Investment Management Agreement

Effective June 1, 2003, the Company entered into an investment management agreement with General Re-New England Asset Management, Inc., whereby the manager will make investment decisions for North Star in accordance with investment restrictions and guidelines as stated in the agreement. All investment transactions require prior approval from North Star except for transactions in the "short term pool" account.

Master Loan Agreement

Effective March 1, 1993 and last amended on August 17, 2004, a master loan agreement was established between and among GRN and certain of its subsidiaries that includes North Star to create an inter-company short term loan facility to reduce each participant's level of short term investments while retaining sufficient liquidity to pay current obligations through affiliate borrowings as needed. General Reinsurance Corporation manages the short term loan facility and is authorized to make loans by affiliates to affiliates requesting such a loan. Loans bear interest from the date funds are advanced until the date repaid and the rate of interest shall be the average rate currently received by participants on their short term investments. Material loans require the lending affiliate's specific approval. Loans are repayable on demand, but are anticipated to be outstanding for six months or less. Borrowing affiliates may repay the loans at any time without penalty.

ACCOUNTS AND RECORDS

Information Systems Controls Evaluation

A high-level assessment of the internal control structure and process for North Star's accounting computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review did not reveal any material deficiencies in the internal control structure of the Company.

Accounting System

All necessary accounting records of the Company are maintained on electronic data processing equipment, which is also shared by GRN, and its subsidiaries. The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis

suitable for General Accepted Accounting Principles. The Company's database was tested as part of Delaware examination procedures.

Independent Accountants

The Company's financial statements are audited each year by the firm of Deloitte & Touche ("D&T"), LLP, of New York, New York. The examiners reviewed the audited statutory financial statements for all years under review and noted that D&T issued an unqualified opinion each year. The workpapers prepared by D&T in connection with the annual audit were reviewed and relied upon to the extent possible.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2005, as determined by this examination, along with supporting exhibits as detailed below:

Assets, December 31, 2005

Liabilities, Surplus and Other Funds, December 31, 2005

Statement of Income, December 31, 2005

Assets
As of December 31, 2005

	Ledger <u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 9,044,444		\$ 9,044,444	1
Cash, cash equivalents, and short-term investments	21,415,713		21,415,713	2
Investment income due and accrued	<u>165,879</u>		<u>165,879</u>	
Total Assets	<u>\$ 30,626,036</u>	<u>\$ -</u>	<u>\$ 30,626,036</u>	

Liabilities, Surplus and Other Funds

		<u>Notes</u>
Losses	\$ 0	3
Reinsurance payable on paid losses and LAE	0	
Loss adjustment expenses	0	3
Current federal and foreign income taxes	59,873	
Net deferred tax liability	18,810	
Payable to parent, subsidiaries and affiliates	<u>12,614,114</u>	
Total Liabilities	<u>\$ 12,692,797</u>	
Common capital stock	\$ 4,000,000	
Preferred capital stock	\$ 500,000	
Gross paid-in and contributed surplus	5,510,000	
Unassigned funds (surplus)	<u>7,923,239</u>	
Surplus as regards policyholders	<u>\$ 17,933,239</u>	
Totals	<u>\$ 30,626,036</u>	

Statement of Income
As of December 31, 2005

UNDERWRITING INCOME

Premiums earned	\$	0
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DEDUCTIONS

Losses incurred	\$	0
Loss expenses incurred		0
Other underwriting expenses incurred		0
Miscellaneous other (income) / loss		0
Total underwriting deductions		0
Net underwriting gain or (loss)	\$	0

INVESTMENT INCOME

Net investment income earned	\$	683,474
Net realized capital gains or (losses)		0
Net investment gain or (loss)	\$	683,474

OTHER INCOME

Net gain from agents' or premium balance charged off	\$	0
Total other income	\$	0
Net income before dividends to policyholders and before federal income taxes	\$	683,474
Dividends to policyholders		0
Net income after dividends to policyholder but before federal income taxes	\$	683,474
Federal and foreign income taxes incurred		214,764
Net income	\$	468,710

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2004	\$	17,430,817
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GAINS AND (LOSSES) IN SURPLUS

Net income	\$	468,710
Change in net unrealized foreign exchange capital gain		51,657
Change in net deferred income tax		(17,945)
Change in surplus as regards policyholders for the year	\$	502,422
Surplus as regards policyholder, December 31, 2005	\$	17,933,239

EXAMINATION ADJUSTMENTS

No financial changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

\$ 9,044,444

Bonds, comprising of 29.53 % of the total admitted assets, were determined to be the same amount as reported by the Company in its Annual Statement.

One hundred percent (100 %) of the bonds were rated Class 2 or higher by the NAIC Securities Valuations Office.

Note 2 – Cash

\$ 21,415,713

Cash equivalents of \$ 17,485,592 as reported in Schedule E-Part 2 and short-term investments of \$ 3,930,121 as reported in Schedule DA, comprising of 69.93 % of the total admitted assets, were determined to be the same amount as reported by the Company in its Annual Statement.

Note 3 – Losses and Loss adjustment expenses

\$ 0

The Company has been in run-off since 1992, and cedes 100% of all losses and loss adjustment expenses to General Reinsurance Corporation. Consequently, as of December 31, 2005 the Company did not carry reserves for losses or loss adjustment expenses. The Company received an exemption from the Delaware Department of Insurance with regards to filing an Actuarial Opinion.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

There were no recommendations made in the prior examination report.

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the Company reply to the Annual Statement General Interrogatories in an accurate manner concerning the maintenance of recorded minutes and a written account or report of the discussions that is reflected in the minutes of the committee members' meetings should be retained. (See Management and Control: Committees, page 6)
2. It is recommended that the Company comply with 18 Del. C. § 4919 regarding notification of changes in officers and directors. (See Management and Control: Officers, page 7)
3. It is recommended that the Company consistently comply with its Policy Statement on Conflict of Interest procedures by verifying that its officers and directors review and execute the questionnaires on an annual basis. (See Management and Control: Conflict of Interest Policy, page 7)
4. It is recommended that the Company exercise care by assuring that when its Board of Directors is required to approve or otherwise provides its approval of an agreement, such approval is given in a timely manner. (See Management and Control: Corporate Records, page 8)

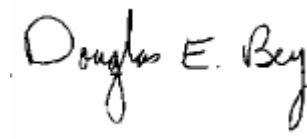
CONCLUSION

The following schedule shows the results of this and the prior examination with changes between the three-year periods:

<u>Description</u>	<u>December 31 2002,</u>	<u>December 31, 2005</u>	<u>Increase</u>
Assets	\$ 25,222,281	\$ 30,626,036	\$ 5,403,755
Liabilities	\$ 9,615,575	\$ 12,692,797	\$ 3,077,222
Capital and Surplus	\$ 15,606,706	\$ 17,933,239	\$ 2,326,533

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,



A handwritten signature in black ink, reading "Douglas E. Bey". The signature is written in a cursive style with a horizontal line underneath it.

Douglas E. Bey, CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC